rather than in Liverpool are stated. Numerous examples of trading methods and terms are given. And some of the questionable and vicious practices which have crept into the Lancashire trade are discussed. Among the remedies for the latter, arbitration and uniform contracts are to be noted, because of the fact that in America in the cotton goods trade and also in other trades it has been found desirable to adopt such mutually protective measures. In spite of its shortcomings the book should be of interest to business men, and the collection of these facts about the English cotton goods trade, however fragmentary, will be of assistance to students of commercial organization.

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Les Crises Périodiques de Surproduction. Vol. I. *Les Variations Périodiques des Prix et des Revenus. Les Théories Dominantes.* Vol. II. *Les Mouvements Périodiques de la Production. Essai d'une Théorie.* By ALBERT AFTALION. (Paris: Marcel Rivière et Cie. 1913. Pp. xii, 324; 418. 16 fr.)

In 1909 Professor Aftalion, of Lille, published an ingenious *Essai d'une Théorie des Crises Générales et Périodiques,* in which he sought to show that the laws of marginal utility afford a secure basis for the once discredited overproduction theory of crises. Gide and Lescure discussed the essay with interest, but did not accept its conclusions. Nothing daunted, Aftalion resumed his investigations and now issues this two-volume treatise upon business cycles. It presents much the same view as the essay of 1909, elaborated in detail, and supported by a large amount of statistical evidence. The gist of M. Aftalion's theory is as follows:

The prosperous phase of a business cycle is ushered in by a rise of the price level which promises higher profits to producers. Their efforts to take advantage of the favorable market lead on the one hand to active bidding for labor, loans, and materials, and on the other hand to an increase of orders for new industrial equipment. The increase of money incomes, produced by high profits, high interest rates, high wages, and active employment, accelerates the expansion of consumers' demand. But, when once the existing equipment has all been brought into active service it becomes difficult to increase further the current supply of consumers' goods. The industries which make industrial equipment are working at high speed, but it takes them a year or more to

complete many of their contracts. So long as the actual deliveries of new equipment lag behind the swelling demand for consumers' goods, the rise of prices continues and prosperity reigns.

This prosperous phase of the cycle lasts, on the average, about four years. During its later stages, more and more of the new equipment which has been ordered is completed and begins adding to the current supply of consumers' goods. Gradually current supply overhauls current demand, and the pressing wants for consumers' goods are measurably provided for. Then the further increments added to the supply must appeal to less intense wants. That is, there occurs a general decline in the marginal utilities of consumers' goods. Hence prices fall and prosperity ends in a crisis.

As the crisis was preceded by overproduction, so it is followed by underdemand. The fall of prices has reduced money incomes and thereby caused a rise in the marginal utility of money, which makes people unwilling to spend as freely as before (vol. II, p. 344). The supply of consumers' goods meanwhile does not decrease, except after severe panics, and then for a short time only. On the contrary, supply increases: (1) because much of the equipment contracted for in the later years of prosperity is delivered after depression has set in, and (2) because both old and new equipment represents so large an investment that it cannot be kept idle without heavy loss. Business men do, of course, stop ordering further equipment—which presently throws the producers of producers' goods out of work; but that measure affords no immediate relief from the excess of current consumers' supply above consumers' demand. Under these circumstances, prices continue to fall; profits shrink; wages and interest are reduced, and unemployment increases.

The reason why depression finally brings back prosperity is that consumers' demand goes on growing slowly, while the industrial equipment remains substantially constant or even declines somewhat as old machines are finally worn out and discarded. When at last the current demand has caught up with the current supply, prices rise once more and the cycle begins afresh.

M. Aftalion points out that this theory of business cycles is based upon two leading ideas. One is that the roundabout method of production, characteristic of capitalism, requires both a long time for the making of industrial equipment and an investment so heavy that, once made, the equipment must be kept running.

Of this idea previous writers have made effective use—for example, Spiethoff in Germany and Hull in America. But Aftalion has not only developed the consequences of the roundabout method of production more systematically than his predecessors, but he has also made a more thorough investigation into the time when new industrial equipment is ordered and the time when it is delivered ready for use (book VI). One point, however, he has not cleared up. The industries which produce producers' goods themselves use industrial equipment not less expensive than that used by the industries which produce consumers' goods. If the latter cannot afford to let their equipment stand idle during depression, how can the former afford it? Here is an exception to one of M. Aftalion's basic ideas which surely requires attention at his hands.

The second leading idea is more original and more doubtful. It is the idea that the laws of marginal utility justify the theory of general overproduction. The fall of prices which terminates prosperity is held to result from a decline in the marginal utility of consumers' goods when the current supply is largely increased. Now, granting that there is a general decline in these marginal utilities, it does not necessarily follow that the price level will fall. To maintain this thesis, M. Aftalion should show that on the average the marginal utility of money declines less rapidly than do the marginal utilities of consumers' goods. That task might not be easy in view of the facts that money incomes increase rapidly during prosperity, and that M. Aftalion is dealing, not with any single commodity, but with the whole class of consumers' goods. Moreover, he points out that money rises in estimation when incomes fall after a crisis. Whatever he might make of this problem, certainly M. Aftalion has not faced it squarely. (See for example vol. II, p. 292.)

M. Aftalion's idea is also open to a statistical objection. If the upward course of prices is really checked by the diminishing utilities of consumers' goods, then consumers' goods must be the first class of commodities to fall before a crisis. M. Aftalion betrays an uneasy feeling that the available data may not justify this corollary (vol. II, pp. 185, 202). I have had occasion to seek definite evidence upon this issue, and what I have found is all against his theory. For example, the monthly price records of 1907 indicate that in America the prices of consumers' goods began to decline later than the prices of producers' goods; and

that the prices of finished commodities began to decline later than the prices of raw materials from which they were manufactured. Moreover, a reading of American trade papers indicates that both in 1893 and in 1907 retail business continued brisk for some time after acute difficulties had appeared in financial and manufacturing circles. Into facts of this order M. Aftalion has made no adequate investigation, although they are of crucial consequence for his theory.

Another omission must be noticed, if the book is to be taken as an account of business cycles. M. Aftalion pays almost no attention to the financial side of business operations. Changes in credit, in the capitalization of business enterprises (as the phrase is usually understood), in the volume of investment loans and bank discounts, in the prices of stocks and bonds, and the like, are mentioned briefly or not at all. Perhaps this weakness of French theory is due to the strength of French finance. Still, had M. Aftalion bestowed care upon this topic, I think he would have found that even in France the stresses which disrupt the business equilibrium appear earlier in financial markets than in the markets for consumers' goods.

After all deductions have been made, however, M. Aftalion's two volumes form a notable contribution toward the understanding of business cycles. They present a large amount of statistical data, some of which are both novel and illuminating. And if the analysis is incomplete or even mistaken at certain points, it still suggests ideas which no one who deals with the subject in future can afford to neglect.

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